

Message Text

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ACTION PM-03

INFO OCT-01 EUR-12 ISO-00 OMB-01 EB-07 COME-00 FRB-03 L-03

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----- 024087

P R 241011Z JUN 75

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC PRIORITY 4248

SECDEF

SEC AIR FORCE

SEC TREAS

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E.O. 11652: N/A

TAGS: MASS, EFIN BE

SUBJECT: F-16 PURCHASE

1. PHILIPPE LAMBERT OF BANQUE LAMBERT, BRUSSELS, HAS REQUESTED EMBASSY TRANSMIT THE FOLLOWING MESSAGE ON FINANCING THE INITIAL CONTRACT PRICE FOR THE F-16 TO SYDNEY COX OF TREASURY. WE ASKED LAMBERT WHETHER HE HAD BEEN IN CONTACT WITH THE BELGIAN GOVERNMENT IN CONNECTION WITH THIS PROPOSAL. LAMBERT REPLIED THAT HE HAD DISCUSSED THE MATTER WITH OFFICIALS IN THE BELGIAN DEFENSE MINISTRY AND HAD BEEN REQUESTED BY THEM TO FIND OUT WHETHER THE APPROACH OUTLINED WOULD BE ACCEPTABLE TO THE U.S.

2. IN THE COURSE OF OUR NORMAL CONTACTS WITH BELGIAN OFFICIALS WE WILL MENTION THAT WE ARE HANDLING A PROPOSAL RELATING TO FINANCING OF THE F-16 CONTRACT WHICH HAS BEEN PASSED TO US BY BANQUE LAMBERT. WE RECOMMEND THAT USG REPLY BE GIVEN TO THE BELGIAN GOVERNMENT AT THE SAME TIME AS TO BANQUE LAMBERT.

3. BEGIN TEXT OF LAMBERT MESSAGE TO COX: FURTHER TO OUR TELEPHONE CONFERENCE (OF JUNE 18), WE SUMMARIZE BELOW OUR BANK'S THOUGHTS FOR FINANCING THE INITIAL CONTRACT
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PRICE FOR YF-16 AIRCRAFT PURCHASE BY BELGIAN GOVERNMENT

PURSUANT TO THE PURCHASE AGREEMENT BETWEEN BELGIUM AND THE U.S. THE OBJECTIVES TO BE ACHIEVED FROM THE POINT OF VIEW OF THE BELGIAN GOVERNMENT ARE THE FIXING OF THE EXCHANGE RATE AT PRESENT RATES WHILE AT THE SAME TIME AVOIDING THE NECESSITY TO BORROW DIRECTLY OR OTHERWISE USE REVENUES BUDGETED ELSEWHERE. THE PROPOSAL WOULD BE AS FOLLOWS:

4. A BANKING SYNDICATE LED BY OUR BANK (THE "BANKS") WOULD MAKE AVAILABLE SUFFICIENT BELGIAN FRANCS IN THE CONVERTIBLE FRANC MARKET TO PURCHASE AN AMOUNT OF DOLLARS EQUAL TO THE DISCOUNTED VALUE OF AGGREGATE U.S. DOLLAR INITIAL CONTRACT PRICE. THE BANKS WOULD THEN SUBSCRIBE TO AN ISSUE OF NON-NEGOTIABLE, NON-INTEREST BEARING U.S. TREASURY BILLS ISSUED AT A DISCOUNT DEPENDING ON MATURITIES INVOLVED OF WHICH THE PRINCIPAL AMOUNTS AND THE MATURITY DATES WOULD COINCIDE WITH THOSE OF THE PROGRESS PAYMENTS TO BE MADE BY THE BELGIAN GOVERNMENT UNDER THE PURCHASE CONTRACT.

4. U.S. GOVERNMENT WOULD ASSIGN TO THE BANKS THE RIGHT TO RECEIVE THE DOLLAR PAYMENTS FROM THE BELGIAN GOVERNMENT AS THEY BECOME DUE. THE BANKS AND THE BELGIAN GOVERNMENT WOULD AGREE THAT SUCH PAYMENTS WOULD BE MADE IN BELGIAN FRANCS AT THE PRESENT EXCHANGE RATE, THE AMOUNT OF WHICH WOULD REIMBURSE THE BANKS FOR THE PRINCIPAL AMOUNT OF BELGIAN FRANCS ORIGINALLY MADE AVAILABLE BY THE BANKS PLUS INTEREST. IN ADDITION THE BELGIAN GOVERNMENT WOULD AGREE TO PAY AN ADDITIONAL AMOUNT TO COVER ANY INTEREST RATE DIFFERENTIAL AND COMMISSIONS.

5. PAYMENTS WOULD BE MADE BY THE BELGIAN GOVERNMENT DIRECTLY TO THE BANKS IN BELGIAN FRANCS AT THE PRE-FIXED EXCHANGE RATE. PURSUANT TO THE SUBSCRIPTION AGREEMENT RELATING TO THE PURCHASE OF THE BILLS BY THE BANKS, THE U.S. TREASURY BILLS WOULD BE CANCELLED FROM TIME TO TIME UPON PAYMENT BY BELGIAN GOVERNMENT TO BANKS.

6. IN THE EVENT OF ANY DEFAULT BY THE U.S. AS SUPPLIER OF THE AIRCRAFT WHICH WOULD JUSTIFY NON-PAYMENT BY THE BELGIAN GOVERNMENT UNDER THE PURCHASE CONTRACT, THE BILL SUBSCRIPTION AGREEMENT WOULD PROVIDE THAT THE U.S. WOULD PAY TO THE BANKS THAT AMOUNT IN U.S. DOLLARS WHICH UPON CONVERSION INTO BELGIAN FRANCS WILL REIMBURSE THE BANKS THE PRINCIPAL AMOUNT OF THE DEFAULTED MATURITY LIMITED OFFICIAL USE

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AT THE SAME PRE-FIXED EXCHANGE RATE. THIS WOULD BE THE SOLE EXCHANGE EXPOSURE OF THE U.S., WHICH IS ELIMINATED BY PERFORMANCE UNDER THE PURCHASE CONTRACT.

7 IF BELGIUM DEFAULTS IN ITS PAYMENTS FOR ANY REASON OTHER THAN DEFAULT IN SUPPLY BY THE U.S., THE U.S. TREASURY BILLS WOULD BE PAYABLE IN DOLLARS, AND THE BANKS WOULD HAVE RECOURSE AGAINST THE BELGIAN GOVERNMENT AND/OR NATIONAL BANK TO RECOVER THE AMOUNT OF

ANY EXCHANGE LOSS. THE BELGIAN GOVERNMENT OR NATIONAL BANK WOULD
THUS ASSUME THE EXCHANGE RISK CAUSED BY ITS OWN DEFAULT UNDER THE
PURCHASE CONTRACT.

8. UNDER THIS PROPOSAL:

(A)

U.S. GOVERNMENT WOULD RECEIVE FORWARD PAYMENT OF DISCOUNTED INITIAL
CONTRACT PRICE IN U.S. DOLLARS AND WOULD NOT INCUR ANY BELGIAN FRANC
PAYMENT OBLIGATIONS EXCEPT IN CASE OF ITS OWN DEFAULT.

(B)

FOREIGN EXCHANGE RISK WOULD BE ELIMINATED FOR BELGIAN GOVERNMENT
EXCEPT IN CASE OF ITS OWN DEFAULT.

PHILIPPE LAMBERT
BANQUE LAMBERT, BRUSSELS (BELGIUM) END TEXT. RENNER

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